

March 23, 2015

Underperform
Unchanged

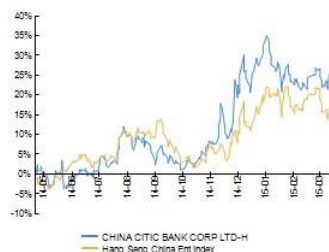
息差承压，拨备不足

中信银行 (998 HK)

Market Data: Mar, 20

| | |
|--------------------------|-----------|
| Closing Price (HK\$) | 5.99 |
| Price Target (HK\$) | 5.53 |
| HSCEI | 12,156 |
| HSCCI | 4,457 |
| 52-week High/Low (HK\$) | 6.34/4.15 |
| Market Cap (USD Mn) | 34,741 |
| Market Cap (HK\$ Mn) | 269,495 |
| Shares Outstanding (Mn) | 46,787 |
| Exchange Rate (RMB-HK\$) | 1.26 |

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"Results miss" Aug 29, 2014

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Financial summary and valuation

| | 2012 | 2013 | 2014 | 2015E | 2016E |
|-----------------------------|--------|--------|--------|--------|--------|
| Net interest income (RMB M) | 75,486 | 85,688 | 94,741 | 87,673 | 96,183 |
| YOY (%) | 15.94 | 13.52 | 10.57 | 5.45 | 9.71 |
| Net income (RMB M) | 31,032 | 39,175 | 40,692 | 40,794 | 42,051 |
| YOY (%) | 0.69 | 26.24 | 3.87 | 0.25 | 3.08 |
| EPS (RMB) | 0.66 | 0.84 | 0.87 | 0.87 | 0.90 |
| Diluted EPS (RMB) | 0.66 | 0.84 | 0.87 | 0.87 | 0.90 |
| BVPS (RMB) | 4.24 | 4.82 | 5.55 | 6.32 | 7.04 |
| ROAE (%) | 16.65 | 18.48 | 16.65 | 14.60 | 13.45 |
| NPL ratio (%) | 0.74 | 1.03 | 1.30 | 1.50 | 1.70 |
| CAR (%) | 13.52 | 11.10 | 12.33 | 12.03 | 11.78 |
| P/E (x) | 7.13 | 5.65 | 5.44 | 5.43 | 5.27 |
| P/B (x) | 1.12 | 0.98 | 0.84 | 0.75 | 0.67 |

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

年报业绩符合预期。中信银行周五公布中报业绩。2014 年贷款余额同比增速达到 13%，存款余额同比增速达到 7%。净利息收入和手续费及佣金净收入分别同比增长 11%和 57%。归属于母公司股东净利润达到 407 亿元，基本每股收益 0.87 元，符合我们的预期。核心一级资本充足率和资本充足率由 8.78%和 11.24%分别提升至 8.93%和 12.33%，未来 350 亿优先股的发行将进一步提升资本充足率至 13.5%。

净息差依然有下行压力。虽然同业利差显著提升，但是公司净息差仍然同比下滑了 20 个基点至 2.40%，主要原因在于其存贷利差的收窄。依靠其集团背景，公司类贷款在总贷款中占比达到 75%，高于行业 70%的平均水平，其中小企业贷款仅占比 8%，远低于民生招行等其他股份制银行，这使得公司贷款议价能力较弱。与此同时，由于缺乏广泛的营业网点，低成本的活期存款占比仅 39%，低于行业 45%的平均水平。由于降息周期中存贷利差将进一步下滑，预计公司净息差将继续承压。

较低的拨备水平将制约未来盈利增长。在经济下滑背景下，公司不良余额较 2013 年末增加 80 亿元至 280 亿元，不良率上升 0.27 个百分点至 1.40%。拨备覆盖率下滑 25 个百分点至 181%，位于行业最低水平。额外的拨备压力也将制约其未来盈利增长。

维持减持评级。基于降息，我们下调公司 2015 和 2016 年 EPS 至 0.87/0.90 元，对应净利润同比增速 0.3%/3%。目前公司股价对应 0.75 倍 2015 年 PB。我们维持公司目标 2015PB0.70 倍，将目标价由 5.71 港币下调至 5.53 港币，意味着 8%的股价下行空间，维持减持评级。

Investment Highlights:

Results in line. CITIC released its annual results last Friday. Loans increased by 13% YoY, while deposits grew by 7% YoY. Net interest income rose 11% YoY, while fees and commission income grew 57% YoY. Net profit arrived at Rmb40.7bn and basic EPS reached Rmb0.87, representing 3.9% YoY, in line with our expectation. Core tier-one CAR declined from 8.78% at end-2013 to 8.93% at end-2014. Meanwhile, CAR increased from 11.24% to 12.33%. The proposed preferred shares issue could increase its CAR to 13.5%.

Significant NIM contraction. Despite of rising interbank spread, NIM declined from 2.60% in 2013 to 2.40% in 2014, declining by 20bps YoY. This is primarily because declining loan to deposit spread. Basing on its group background, corporate loans accounted for 75% of its total loans (as compared to the sector average level of 70%), among which small enterprise loans only accounted for 8%, making CITIC'S pricing power much weaker than other small and medium sized banks. Meanwhile, due to lack of wide networks, low cost demand deposits only accounted for 39% of its total deposits, as compared to the sector average level of 45%. We believe NIM would continue to be under pressure amid rate cut cycle.

Low provision level may impact future earnings growth. Amid decelerating economic growth, CITIC'S nonperforming loan amount increased to Rmb28bn at end-2014 (+Rmb8bn vs end-2013), while its NPL ratio increased to 1.30% (+0.27ppts vs end-2013). The company'S coverage ratio further decreased to 181% (-25ppts YoY) (vs sector average of 230%), which is the lowest among the sector. This indicates its future earnings growth may be impacted by additional provision pressure.

Maintain Underperform. In light of interest rate cuts, we revise down our EPS forecast by 3% to Rmb0.87 in 15E (+0.3% YoY) and Rmb0.90 in 16E (+3% YoY). Currently CITIC is trading at 0.75x 2015PB. We maintain its target 2015PB at 0.70x and revise down target price from HK\$5.71 to HK\$5.53. With 8% downside risk, we maintain Underperform rating.

Figure 1: Valuation table

| Company | Code | Rating | Target price (HK\$) | +/- (%) | Trading PE | | | Trading PB | | |
|---------|---------|---------|---------------------|---------|------------|------|------|------------|------|------|
| | | | | | 13A | 14E | 15E | 13A | 14E | 15E |
| CRCB | 3618 HK | BUY | 5.67 | 15.7% | 6.03 | 5.31 | 4.72 | 1.00 | 0.84 | 0.74 |
| BOCOM | 3328 HK | BUY | 8.59 | 28.6% | 6.32 | 5.96 | 5.56 | 0.94 | 0.80 | 0.72 |
| CMBC | 1988 HK | O-PF | 10.90 | 14.4% | 5.07 | 5.47 | 4.98 | 1.08 | 1.06 | 0.88 |
| BOC | 3988 HK | O-PF | 5.23 | 17.5% | 6.28 | 5.78 | 5.51 | 1.07 | 0.95 | 0.85 |
| ABC | 1288 HK | O-PF | 3.95 | 3.1% | 5.93 | 5.37 | 4.93 | 1.17 | 0.98 | 0.86 |
| ICBC | 1398 HK | Neutral | 5.12 | -10.0% | 6.04 | 5.67 | 5.38 | 1.24 | 1.09 | 0.96 |
| CCB | 939 HK | Neutral | 5.60 | -13.6% | 5.99 | 5.57 | 5.23 | 1.21 | 1.00 | 0.88 |
| CITIC | 998 HK | U-PF | 5.53 | -7.7% | 5.67 | 5.45 | 5.32 | 0.98 | 0.84 | 0.75 |
| CMB | 3968 HK | U-PF | 15.45 | -17.5% | 6.46 | 6.60 | 5.93 | 1.41 | 1.15 | 1.00 |

Source: Company data, SWS Research

Appendix

Figure 2: Forecast Income Statement

| RMB million | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(E) | 2016(E) |
|--------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Interest Income | 17,795 | 22,511 | 28,444 | 41,494 | 58,867 | 56,131 | 72,460 | 106,623 | 138,810 | 163,335 | 175,646 | 188,045 | 213,371 |
| Interest expense | (7,412) | (9,851) | (11,971) | (15,324) | (22,776) | (20,147) | (24,325) | (41,517) | (63,324) | (77,647) | (92,502) | (100,372) | (117,188) |
| Net interest income | 10,383 | 12,660 | 16,473 | 26,170 | 36,091 | 35,984 | 48,135 | 65,106 | 75,486 | 85,688 | 94,741 | 87,673 | 96,183 |
| Fee and commission income | 449 | 608 | 965 | 2,365 | 3,453 | 4,718 | 6,308 | 9,481 | 12,194 | 18,318 | 25,590 | 29,429 | 33,843 |
| Fee and commission expense | (131) | (190) | (206) | (285) | (408) | (498) | (612) | (644) | (984) | (1,507) | (2,559) | (2,943) | (3,384) |
| Net fee and commission income | 318 | 418 | 759 | 2,080 | 3,045 | 4,220 | 5,696 | 8,837 | 11,210 | 16,811 | 23,031 | 26,486 | 30,459 |
| Other operating income | 445 | 577 | 695 | (295) | 1,236 | 811 | 2,525 | 3,149 | 3,015 | 2,314 | 6,007 | 5,900 | 5,901 |
| Operating income | 11,146 | 13,655 | 17,927 | 27,955 | 40,372 | 41,015 | 56,356 | 77,092 | 89,711 | 104,813 | 112,182 | 120,059 | 132,542 |
| Operating expense | (4,659) | (6,113) | (7,861) | (9,761) | (13,294) | (16,370) | (18,953) | (23,038) | (29,637) | (35,094) | (35,898) | (39,619) | (43,739) |
| Business tax and surcharges | (792) | (991) | (1,398) | (2,034) | (2,854) | (2,761) | (3,685) | (5,343) | (5,342) | (5,341) | (6,017) | (6,485) | (7,349) |
| Operating profit before provisions | 5,695 | 6,551 | 8,668 | 16,160 | 24,224 | 21,884 | 33,718 | 48,711 | 54,732 | 64,378 | 70,267 | 73,954 | 81,455 |
| Provision for impairment losses | (1,634) | (1,098) | (1,666) | (2,988) | (5,379) | (2,446) | (4,238) | (5,734) | (12,804) | (11,327) | (16,329) | (19,881) | (25,726) |
| Provision for other assets | 0 | 0 | 0 | 0 | (1,065) | (173) | (1,011) | (1,473) | (300) | (613) | (1,000) | (1,000) | (999) |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 226 | 86 | (19) | 111 | | | |
| Profit before tax | 4,061 | 5,453 | 7,002 | 13,172 | 17,780 | 19,265 | 28,695 | 41,590 | 41,609 | 52,549 | 53,938 | 54,073 | 55,729 |
| Income tax | (1,633) | (2,369) | (3,144) | (4,850) | (4,426) | (4,705) | (6,916) | (10,746) | (10,224) | (12,832) | (12,945) | (12,978) | (13,375) |
| Net profit attributable to equity holders of the bank | 2,428 | 3,084 | 3,858 | 8,322 | 13,354 | 14,320 | 21,509 | 30,819 | 31,032 | 39,175 | 40,692 | 40,794 | 42,051 |

Source : Company data, SWS Research

Figure 3: Forecast Balance Sheet

| RMB million | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015(E) | 2016(E) |
|----------------------------------------------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | | | | | | | | |
| Cash and Balance with central bank | 54,253 | 84,453 | 90,620 | 123,369 | 206,936 | 224,003 | 256,323 | 366,391 | 428,167 | 496,476 | 533,712 | 603,094 | 681,496 |
| Cash/balances/Placements with banks and other financial institutions | 20,899 | 31,352 | 43,250 | 26,655 | 50,446 | 267,011 | 278,220 | 699,750 | 457,476 | 540,792 | 413,246 | 338,508 | 403,702 |
| Loans and advances to customers | 291,921 | 358,030 | 453,381 | 565,866 | 651,352 | 1,050,479 | 1,246,026 | 1,410,779 | 1,627,576 | 1,899,921 | 2,141,211 | 2,419,568 | 2,734,112 |
| Investments | 110,903 | 104,416 | 104,876 | 279,943 | 261,278 | 209,442 | 273,483 | 255,859 | 348,308 | 667,279 | 720,661 | 778,314 | 840,579 |
| Non interest-bearing assets | 17,469 | 16,351 | 14,596 | 15,353 | 18,140 | 24,096 | 27,262 | 33,102 | 98,412 | 36,725 | 50,167 | 54,522 | 61,376 |
| Total | 495,445 | 594,602 | 706,723 | 1,011,186 | 1,188,152 | 1,775,031 | 2,081,314 | 2,765,881 | 2,959,939 | 3,641,193 | 3,858,997 | 4,194,007 | 4,721,267 |
| Liabilities | | | | | | | | | | | | | |
| Deposits/Placements from banks and other financial institutions | 38,490 | 28,261 | 36,367 | 113,002 | 110,525 | 283,702 | 153,116 | 550,028 | 399,734 | 609,568 | 617,440 | 545,221 | 613,765 |
| Deposits from customers | 435,020 | 530,573 | 618,412 | 787,211 | 945,835 | 1,341,927 | 1,730,816 | 1,968,051 | 2,255,141 | 2,651,678 | 2,850,554 | 3,221,126 | 3,639,872 |
| Debts issued | 6,000 | 6,000 | 12,000 | 12,000 | 12,000 | 18,422 | 34,915 | 33,730 | 56,402 | 76,869 | 76,869 | 76,869 | 76,869 |
| Trading and Derivative liabilities | - | - | 655 | 1,914 | 5,718 | 6,383 | 14,855 | 3,764 | 3,412 | 6,853 | - | - | 1 |
| Non interest-bearing liabilities | 5,172 | 6,543 | 7,595 | 12,968 | 18,413 | 17,589 | 23,074 | 31,527 | 42,164 | 65,500 | 46,308 | 50,328 | 56,655 |
| Total | 484,682 | 571,377 | 675,029 | 927,095 | 1,092,491 | 1,668,023 | 1,956,776 | 2,587,100 | 2,756,853 | 3,410,468 | 3,591,170 | 3,893,544 | 4,387,162 |
| Shareholders' equity | | | | | | | | | | | | | |
| Share capital | - | - | 31,113 | 39,033 | 39,033 | 39,033 | 39,033 | 46,787 | 46,787 | 46,787 | 46,787 | 46,787 | 46,787 |
| Reserves | (7,031) | (3,441) | (303) | 41,138 | 46,761 | 46,044 | 50,566 | 77,087 | 94,218 | 102,124 | 110,111 | 118,259 | 126,544 |
| Retained profits | - | - | 879 | 3,915 | 9,864 | 17,721 | 30,576 | 50,622 | 57,351 | 76,690 | 106,237 | 130,724 | 156,080 |
| Total shareholders' equity | 10,759 | 23,220 | 31,689 | 84,086 | 95,331 | 102,798 | 120,175 | 174,496 | 198,356 | 225,601 | 263,135 | 295,770 | 329,410 |
| Minority Interests | 4 | 5 | 5 | 5 | 3 | 4,210 | 4,363 | 4,285 | 4,730 | 5,124 | 4,692 | 4,693 | 4,694 |
| Total shareholders' equity and liabilities | 495,445 | 594,602 | 706,723 | 1,011,186 | 1,188,152 | 1,775,031 | 2,081,314 | 2,765,881 | 2,959,939 | 3,641,193 | 3,858,997 | 4,194,007 | 4,721,267 |

Source : Company data, SWS Research

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