



Rating
Hold

Asia
China

Banking / Finance
Banks

Company
**China CITIC Bank
Alert**

Reuters 0998.HK	Bloomberg 998 HK	Exchange HKG	Ticker 0998
ADR Ticker CHCJY	ISIN US1693892028		

Date
21 March 2015

Results

Price at 20 Mar 2015 (HKD)	5.99
Price target - 12mth (HKD)	6.82
52-week range (HKD)	6.29 - 4.14
HANG SENG INDEX	24,469

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Stock data

Market cap (HKDm)	280,254
Market cap (USDm)	36,128
Shares outstanding (m)	46,787.0
Avg daily value traded (USDm)	43.8

Source: Deutsche Bank

2014 results - mixed trends; full year dividends cancelled

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

CNCB reported FY14 net profit of Rmb40.7bn, up by 3.9% yoy, which was driven by strong PPOP growth of 21.2% yoy and high credit costs of 107bps (2013: 63bps). While the NPL balance fell modestly by 3.3% qoq to 1.3% of loans, we estimate that the NPL formation rate had accelerated to 114bps in 4Q14 (1H14: 86bps) after adjusting for the estimated write-off of Rmb7.1bn for the quarter. CNCB had cancelled the payment of full-year dividends, and according to the company, the decision could facilitate a timely completion of the Rmb11.9bn in private share placement to China Tobacco. We maintain a Hold rating on CNCB's H-shares and a Sell rating on its A-share (RMB 7.43).

4Q14 results - running the numbers

In 4Q14, CNCB reported NPAT growth of 1.2% yoy as PPOP growth of 13.3% yoy was offset by high credit costs of 109bps. Despite the modest net interest income growth of 1.1% qoq (up 7% yoy), CNCB's NIM rose by 7bps to 2.5%. Essentially, the bank had adjusted the asset mix by scaling back the inter-bank assets by 35.6% qoq to account for 7.2% of assets (3Q14 11.4%), while increasing reliance on inter-bank borrowings (up 6.7% qoq) to account for 19.4% of liabilities (3Q14: 18.5%). Non-interest income grew by 53.5% yoy, driven by strong net fee income growth of 46.5% yoy and strong trading income (up 93% yoy). As operating expense growth of 17.3% yoy outpaced operating income growth of 15.1% yoy, CIR rose 0.8% yoy to 46.2% for 4Q14. For 2014, CNCB reported a ROAA of 1.05% and ROAE of 16.8%.

Continued worsening in asset quality, with falling coverage ratio

Reflecting an aggressive write-off strategy i.e. Rmb11.6bn in FY14 (or 56bps of average loans), CNCB only reported a modest increase in NPL ratio to 1.3% from 1.03% in 2013. Adjusting for the write-off, the NPL formation rate was estimated to be 97bps for the year. We believe the notable rise of 79% hoh and 69% hoh in SML loan and loan overdue less than 90 days to 3.12% and 1.97% of loans should be indicative of further asset quality deterioration. With a credit cost of 1.09% in 4Q14, NPL coverage ratio remained steady at 181%, but gross loan coverage ratio fell by 15bps qoq to 2.36%.

Proposal to issue Rmb35bn of preferred shares to replenish capital

CNCB reported core tier 1, tier 1 and CAR of 8.93%, 8.99% and 12.33% as of 2014. Today, the company has announced the plan to raise up to Rmb35bn of preferred shares in the domestic market, and we estimate that the exercise could raise its tier 1 ratio by 1.19%, according to its 2014 RWA. In addition, we expect the Rmb11.9bn in a private placement to China Tobacco (or 0.4% of its 2014 RWA) to be completed before this June. We believe that CNCB is sufficiently capitalized.

Deutsche Bank AG/Hong Kong

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